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SUBJECT: KAZAKHSTAN: SCENESETTER FOR UNDER SECRETARY BURNS'S JULY
9-10 VISIT TO ASTANA

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Your visit to Astana is a key opportunity for engagement with the leadership of our most important partner in Central Asia. We have a robust bilateral relationship, with close cooperation on such critical issues as Afghan stabilization and reconstruction, nuclear non-proliferation, and developing Kazakhstan's vast energy resources to support global energy security. With its upcoming 2010 OSCE chairmanship, Kazakhstan is poised for its most important international leadership role to date. The Kazakhstanis will be particularly interested in getting a briefing on the Obama-Medvedev summit and on the status of the U.S.-Russia relationship -- which has a direct impact on Kazakhstan. You should press the Kazakhstanis to take additional concrete steps to support Afghanistan. You will want to get the Kazakhstanis' take on European security architecture, discuss their priorities for their OSCE chairmanship, and remind them that the chairmanship will place their country's record on democracy and human rights under additional scrutiny. You should also reiterate our commitment to Kazakhstan's WTO accession. END SUMMARY.

FURTHER STRENGTHENING BILATERAL RELATIONS

¶3. (SBU) The Kazakhstani leadership sees the new Obama administration as an opportunity to further strengthen bilateral relations. President Nazarbayev welcomed then President-elect Obama's early phone call last November, and subsequently invited him to visit Astana -- an invitation passed directly to POTUS by Senate Chairman Kasym-Zhomart Tokayev at an Alliance of Civilizations reception in Istanbul on April 7. Nazarbayev very much appreciated the Administration's invitation to attend the 2010 global summit on nuclear security. The Kazakhstanis recently requested that we establish a formal structure for high-level oversight of bilateral relations, like the Gore-Nazarbayev Commission under President Clinton.

¶4. (SBU) Nazarbayev carefully balances Kazakhstan's relations with Russia, China, the United States, and the EU -- what he terms a "multi-vector" foreign policy. The Kazakhstanis consider Russia their most important international partner, and Russia's influence is unequalled in Kazakhstan due to long historical and economic ties,

Kazakhstan's large ethnic Russian population, and the predominance here of the Russian language. Kazakhstan's close relationship with the United States serves as an essential counterweight -- reinforcing the country's sovereignty and independence and helping it to stave off excessive pressures from both its giant neighbors, i.e., China as well as Russia. For the Kazakhstanis, high-level interactions with the United States, such as your visit, are thus important not only for their substance, but also for their symbolism -- sending a signal to Moscow that we remain closely engaged with them.

AFGHANISTAN: POISED TO DO EVEN MORE

15. (SBU) The Kazakhstanis view insecurity in Afghanistan as a direct threat to Kazakhstan, through northward flow of Islamic militants and narcotics. They have expressed concern about Karzai's Taliban reconciliation efforts. They understand why the Afghan government wants to co-opt some moderate Taliban factions, but believe that there are practical and political limits on dialogue and compromise and consider any negotiations with the Taliban's core leadership to be a dangerous idea.

16. (SBU) Kazakhstan has provided critical support for Afghan stabilization and reconstruction. The details are discussed in the issue paper on Afghanistan prepared for your visit, but of most important note, the Kazakhstanis are participating in the Northern Distribution Network, and we have bilateral agreements from 2001 and 2002 that allow U.S. military aircraft supporting Operation Enduring Freedom to transit Kazakhstani air space cost-free and to make emergency landings in Kazakhstan when conditions do not permit landing at Kyrgyzstan's Manas Air Base. The Kazakhstanis have expressed an interest in doing even more, including sending staff officers to ISAF headquarters and perhaps deploying a military

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medical unit or military engineering team to Afghanistan. They are currently developing a program to provide free university education in Kazakhstan to Afghan students.

DEMOCRACY: SLOW GOING

17. (SBU) While the Kazakhstani government articulates a strategic vision of democracy, it has lagged on the implementation front. The leadership remains resistant to competitive political processes -- and the situation is complicated by the fact that Nazarbayev is extraordinarily popular (with approval ratings in the 80-90 percent range in our own polling), while the opposition is weak, fractured, and comprised mostly of ex-Nazarbayev loyalists who fell out of favor with him. Nazarbayev's Nur Otan party officially received 88% of the vote and won all the parliamentary seats in August 2007 elections which OSCE observers concluded did not meet OSCE standards. The next elections, both parliamentary and presidential, are scheduled for 2012.

18. (SBU) On a positive note, Nazarbayev has taken steps that could facilitate a transition to a more democratic system over the long run. His Bolashak program provides scholarships annually for several thousand Kazakhstanis to receive higher education abroad, mostly in the West, where they absorb Western ideas and values. He has also brought into government a new generation of young, ambitious bureaucrats -- many of whom studied in the West through Bolashak or our own programs.

RAKHAT ALIYEV: A MAJOR PREOCCUPATION

19. (SBU) Nazarbayev's former son-in-law Rakhat Aliyev, who is living in exile in Europe, remains a major preoccupation for the government.

In late 2007, Aliyev began publicly releasing secretly-made recordings of embarrassing conversations among senior government officials, including some involving Nazarbayev himself. In two 2008 trials, Aliyev was convicted in absentia of several serious offenses, including plotting a coup and ordering the murder of two bankers who disappeared without a trace. He was sentenced to 20 years in prison and his assets were confiscated. A German publishing house just published Aliyev's tell-all book entitled "Godfather-in-Law;" the Kazakhstanis have banned its distribution here. From exile, Aliyev has tried to remake his image into one of a persecuted democratic

reformer, while also dropping false hints that he is cooperating with and under the protection of the U.S. government -- a claim that many senior Kazakhstani officials seem to believe, despite our strongest denials. We have made clear to the government that we have no ties whatsoever to Aliyev.

ECONOMY: AGGRESSIVE STEPS TO TACKLE ECONOMIC CRISIS

¶10. (SBU) Kazakhstan is Central Asia's economic powerhouse, with a GDP larger than that of the region's other four countries combined. Economic growth averaged over 9% per year during 2005-07, before dropping to 3% in 2008 with the onset of the global economic crisis. The international financial institutions are predicting negative 2% growth for Kazakhstan in 2009, with an economic recovery beginning in ¶2010. While the country's economic success is partly due to its fortuitous natural resource deposits, astute macroeconomic policies and extensive economic reforms have also played an important role. Kazakhstan has a modern banking and financial system, a well-endowed pension fund, and a transparent sovereign wealth fund with approximately \$20 billion in assets. The government has taken aggressive steps to tackle the domestic reverberations of the global financial and economic crisis, allocating around \$20 billion to take equity stakes in private banks, prop up the construction and real estate sectors, and support small- and medium-sized enterprises and agriculture. A government takeover of the country's largest bank -- Bank Turan Alem (BTA) -- raised concerns because the authorities ousted BTA's chairman, Mukhtar Ablyazov, a leading financier of Kazakhstan's political opposition. While Ablyazov, who is purportedly in self-imposed exile in Britain, argues that the takeover was politically motivated, reliable sources in the international community, including the EBRD, believe that he may have

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looted BTA of several billion dollars.

¶11. (SBU) Kazakhstan's long-run economic challenge is to diversify its economy away from reliance on the energy sector. In 2008, we launched a bilateral Private-Private Economic Partnership Initiative (PPEPI), which is bringing together the U.S. and Kazakhstani public and private sectors to make policy recommendations on improving the country's business climate and reducing other barriers to non-energy investments.

SUSPENSION OF WTO NEGOTIATIONS

¶12. (SBU) In June, Kazakhstan, Russia, and Belarus announced that they would be suspending their individual negotiations to accede to the World Trade Organization (WTO) and would instead launch joint negotiations in order to enter the WTO together as a customs union. This appears to have been a close-hold decision made at the highest political levels of the three governments, without consultation with technical experts. We had ample warning over the past year that the Kazakhstanis were weighing the relative economic benefits of WTO accession and the customs union, and increasingly felt that the United States and European Union were not translating support for their accession at the political level into concrete results in the accession negotiations taking place at the technocratic level. Since there does not appear to be a mechanism allowing a customs union to accede to the WTO without its member states doing so individually, we should reiterate our support for Kazakhstan's WTO accession and encourage them to continue their individual accession negotiations.

ENERGY: DIVERSIFYING TRANSPORT ROUTES

¶13. (SBU) U.S. and Kazakhstani strategic interests are largely aligned on the development of Kazakhstan's vast energy resources. Both sides agree that U.S. and Western companies must continue playing a lead role in Kazakhstan's energy exploration and production projects and that diversifying transport routes will bolster Kazakhstan's sovereignty and enable it to capture the maximum benefits of its energy wealth. Kazakhstan produced 70.7 million tons of oil in 2008 (approximately 1.41 million barrels per day), and is expected to become one of the world's top ten crude exporters soon after 2015. While the country also has significant gas reserves (1.5 trillion cubic meters is a low-end estimate), current gas exports are very limited for now, in part because gas is being reinjected to

maximize crude output. U.S. companies -- ExxonMobil, Chevron, and ConocoPhillips -- have significant ownership stakes in Kazakhstan's three major hydrocarbon projects, including Kashagan, the world's largest oil field discovery since Alaska's North Slope.

¶14. (SBU) With major crude production increases on the horizon, Kazakhstan must develop additional transport routes to bring its crude to market. Currently, most of Kazakhstan's crude is exported via Russia, though some exports flow east to China, west across the Caspian through Azerbaijan, and south across the Caspian to Iran. We are focused on helping the Kazakhstanis implement the Kazakhstan-Caspian Transportation System (KCTS), which envisions a "virtual pipeline" of tankers transporting large volumes of crude from Kazakhstan Caspian coast to Baku, from where it will flow onward to market through Georgia, including through the Baku-Tbilisi-Ceyhan (BTC) pipeline. While a trans-Caspian crude pipeline would likely be a cheaper long-term transport option, Kazakhstan is reluctant to openly pursue this option in the absence of an agreement on delimitation of the Caspian Sea among the five Caspian littoral states.

NON-PROLIFERATION: HALLMARK OF BILATERAL COOPERATION

¶15. (SBU) Non-proliferation cooperation has been a hallmark of our bilateral relationship since Kazakhstan became independent and agreed to give up the nuclear arsenal it inherited from the USSR. The Nunn-Lugar Cooperative Threat Reduction (CTR) program remains the dominant component of our assistance to Kazakhstan. Key ongoing CTR activities include our efforts to secure the radiological material at the Soviet-era Semipalatinsk nuclear test site and to provide

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long-term storage for the spent fuel from Kazakhstan's plutonium breeder reactor. The Kazakhstanis are seeking additional ways to burnish their non-proliferation credentials. On April 6, President Nazarbayev announced publicly that Kazakhstan is interested in hosting the Nuclear Threat Initiative's IAEA-administered international nuclear fuel bank. The Kazakhstanis are also considering running for a seat on the IAEA Board of Governors, and continue to press us to support their joining the Missile Technology Control Regime (MTCR). At a June 18 ceremony marking the 20th anniversary of the last nuclear test at Semipalatinsk, Nazarbayev proposed a new non-proliferation treaty to strengthen the global non-proliferation regime; expressed support for President Obama's statements in Prague about moving toward a world without nuclear weapons; and called on the UN to establish a "world non-proliferation day."

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